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SALES INCENTIVES

Antidotes for Inaction

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A sunset over the desert is just one of Arizona's attractions. See page 78.

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Antidotes for Inaction

Survey shows how companies instill more get-up-and-go in their sales forces.

Growth in corporate outlays for sales incentive programs appears to have slowed in 1985 from the torrid 20-percent increase reported by sales incentive users last year. At the same time, companies this year are reporting slightly lower sales results and a small decline in sales force participation. These are the findings of **Incentive Marketing**'s latest survey of sales motivation practices.

Last year, **IM** surveys estimated total sales incentive usage at $2.98 billion—a 19.9-percent gain over 1983 results. Merchandise volume rose 19.5 percent to $2.26 billion, while travel gained more, up 21.3 percent to $723 million.

While 1984's total incentive activity was quite vigorous—up 13.3 percent—the boom in sales incentives brought this segment of the field to a record share of the pie—25.2 percent of all incentive spending. The share had held in the 23 percent range for many years, moving up to 23.8 percent in 1983.

Contributing the most to last year's increased sales incentive efforts were the four top user industries, all of which increased their spending more than the overall average. The four are, in order of

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Incentive campaigns have produced sales gains of 18 percent so far this year, a dip from '84 results.

usage: insurance; auto parts, tires and accessories; toiletries and cosmetics, and automobiles and trucks. The number-six industry, however, led the field: food products firms increased sales incentive spending by 25.1 percent.

Marketers' sales incentives were highly effective in 1984. A special survey found their average sales increase achieved during the year was 20.1 percent, up from 18.8 percent the year before and the highest since 1980. The surge of the economy made selling relatively easier.

That kind of advantage tends to be short-lived, and this year's study shows that incentive program results have slipped back to an average of 18 percent among the surveyed users, fairly low in relation to most recent years.

The findings are based on information supplied by 231 executives who returned an **IM** questionnaire in time to be recorded. They reported in July, so their actual sales results are based mainly on first-half programs and on whatever they felt could be projected beyond mid-year. Last year's comparable survey was taken at about the same time.

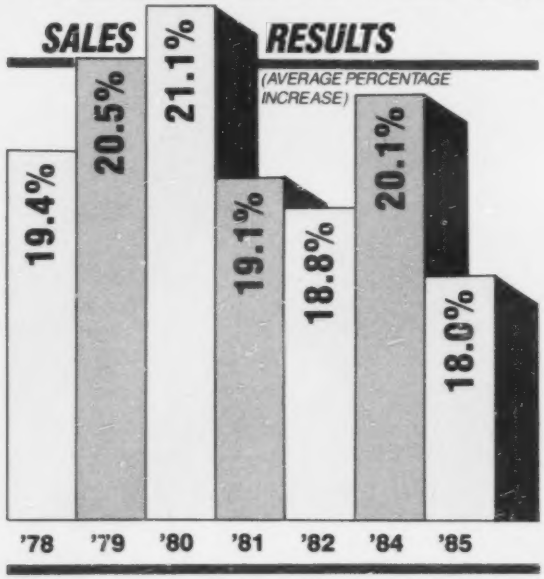
The degree of participation by a sales force—how many eligibles qualify—has a direct bearing on overall results in a well-structured program. The point is made clear in this year's survey, where participation has dropped below the 1984 level along with the sales gains. Last year, the average rate of participation was 44 percent of those eligible—50 percent in merchandise-award programs, 36 percent in travel campaigns. This year's overall average is only 40 percent —with 47 percent earning merchandise and 29 percent taking trips. This is the lowest figure in at least eight years, except for 1982 when only 39 percent qualified.

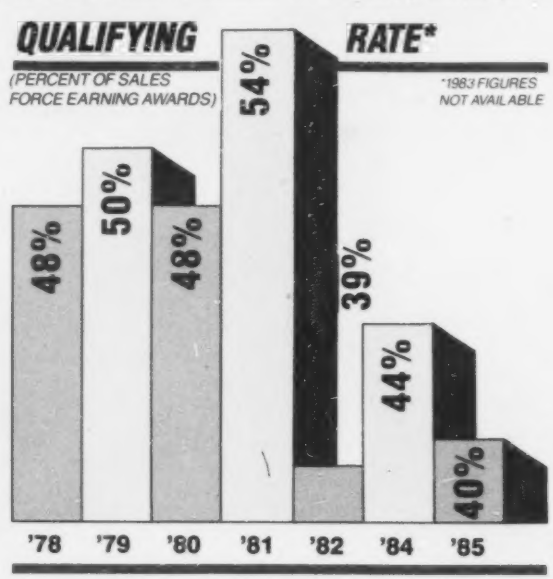
Many users deliberately structure their sales campaigns to achieve a small number of winners. This is particularly common with those who talk of "sales contests." More experienced users are less likely to talk of contests and more likely to base awards on each salesperson's effort to beat his or her own record.

An old saw has it that the top 20 percent of the sales force is motivated from within and will always perform—they'll go for the goal just because it is there; the bottom 20 percent are mostly immovable, and the middle 60 percent are the motivator's challenge. Whatever the actual numbers, many sales executives attest to the principle. That leaves us, however, with the fact that a program in which only 40 percent earn awards has actually touched only one-third of the motivatable middle, assuming that half the winners are from the top tier.

An average conceals wide variations, and there are many users who do report higher participation. About 39 percent of the merchandise users say that 60 percent or more of salespeople qualify. On the travel side, 16 percent of executives have at least three out of five winning. And one user out of every seven reports from 80 percent to 100 percent winners.

The other side of the issue, however, is the rather large number of respondents who say that very few of their salespeople earn awards. A winning percentage of





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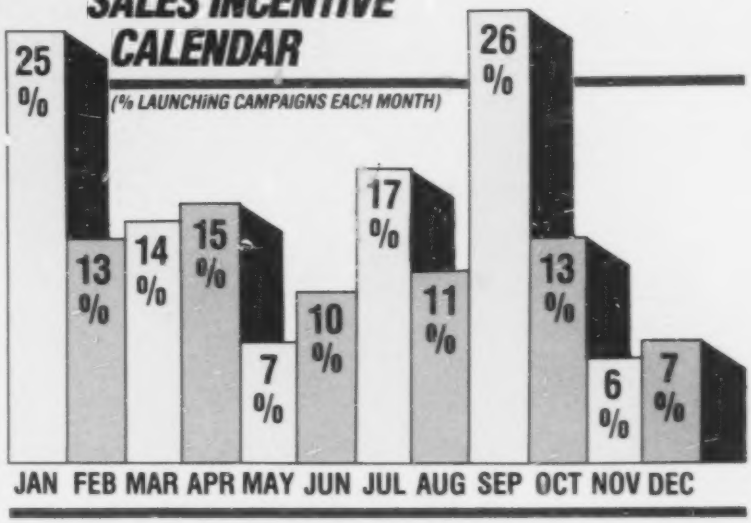
fewer than 25 percent was reported by 31 percent of the users of merchandise incentives. Among travel users, the pickings are even slimmer, with 61 percent having fewer than one salesperson in four qualifying for trips.

There is substantial good news to counter the slight decline in sales incentive productivity. By another important measure—cost as a percentage of incremental sales—this year's activity sets a new record for cost effectiveness. The average cost is reported to be only 8 percent of sales added during a promotion, and the median declined for the first time to only 5 percent.

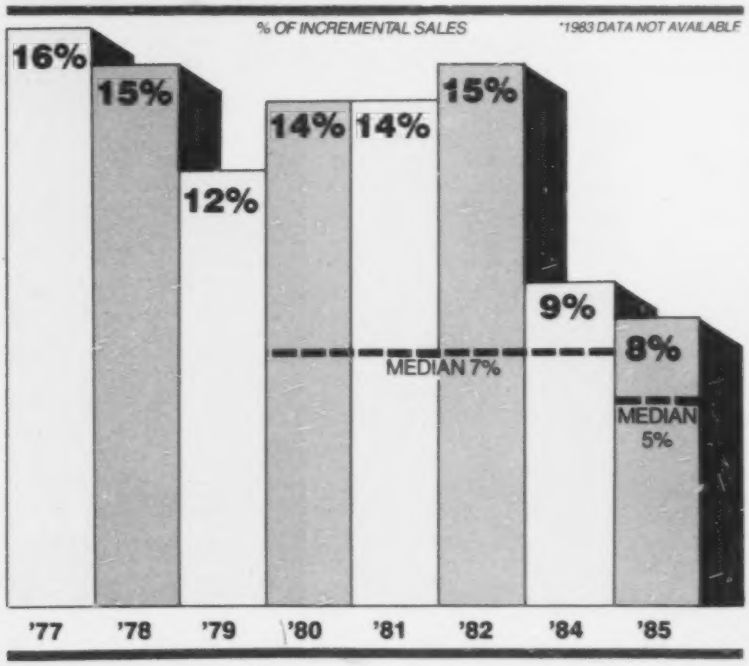
Last year, the average campaign cost was 9 percent of increased sales, a low compared with results in the past several years; the median was just 7 percent, the same as it had been since 1980.

SALES INCENTIVE CALENDAR



Although experience differs by industry and by company, increasing sales productivity at such a low cost must make a significant contribution to profit. A Dartnell survey two years ago reported that the average cost of a sales call ranged from $50 to $200, depending on the industry—with an average of $152. The survey also showed that it takes an average of five calls to close a sale. At the average cost, that's $760 before the order is written. An executive with a cost in that range has to be happy to invest 8 percent or more of incremental sales gained by making those calls more effective through motivation.

THE AVERAGE COST



The question of direct compensation applies mainly, of course, to company-employed salespeople. That is, as in the past, by far the largest target group among the executives in the survey—with 70 percent aiming their campaigns at their own captive personnel, up three points from a year ago. About 26 percent conduct programs for independent reps or agents; 22 percent for wholesaler or jobber personnel; 17 percent for retailer employees, and only 2 percent for direct-selling people. Many aim their incentives at more than one type of salesperson, which accounts for the total in excess of 100 percent.

Incentives are used for many reasons. A marketer's first consideration generally is what portions of a line will be promoted. The full line of products or services is the first choice among those in the survey—45 percent. This is down

SALES INCENTIVES

just a bit from 50 percent last year. Second choice is "selected items," favored by 43 percent. Only 12 percent put the incentive impetus behind a single product.

Companies are implementing sales motivation campaigns with about the same frequency as last year, with a small increase in combined merchandise and travel promotions. Merchandise users average 3.8 campaigns a year, but the median is just two. On the travel side, the average is at two, but the median number is only one a year. Those who combine both merchandise and travel in a single promotion now say they do it an average of 3.8 times, compared with 2.6 times among those reporting a year ago; the median of such programs is two.

Selling is a year-round job, and marketers launch their incentive campaigns in every month of the year, but there are some favorite times. September, chosen by 26 percent, and January, 25 percent, are the most active months for beginning incentive promotions. The January figure is well below the 35 percent who indicated that month as a starting time in the survey a year ago—which may reflect a reduction in the number of year-long campaigns. (About 10 percent of the present respondents run incentive programs lasting 52 weeks or longer with merchandise awards, while 34 percent of travel users favor a full year's time for qualification.)

Companies are spending less on sales motivation in 1985 but are seeing greater cost effectiveness.

After the front-running September and January, the next months in favor are July (17 percent), April (15 percent) and March (14 percent). February and October are chosen by 13 percent each, and the remaining five months were named by 6 percent to 11 percent of the executives.

The key factor that often determines when an incentive promotion breaks is, of course, the campaign's objective. The underlying goal of most is naturally to boost sales, and increasing overall volume is the clear leader among objectives cited by the surveyed users —73 percent in this study. But most experienced users consider it important to look at more specific objectives to help focus the sales effort effectively as well as to achieve particular marketing ends.

Introducing new products is a specific objective, and it is the reason for an incentive campaign with 47 percent of respondents. Improving morale and good will is a strong third choice, at 35 percent. And 31 percent of firms surveyed use the incentive to manipulate the product mix, to move a full line or slow items.

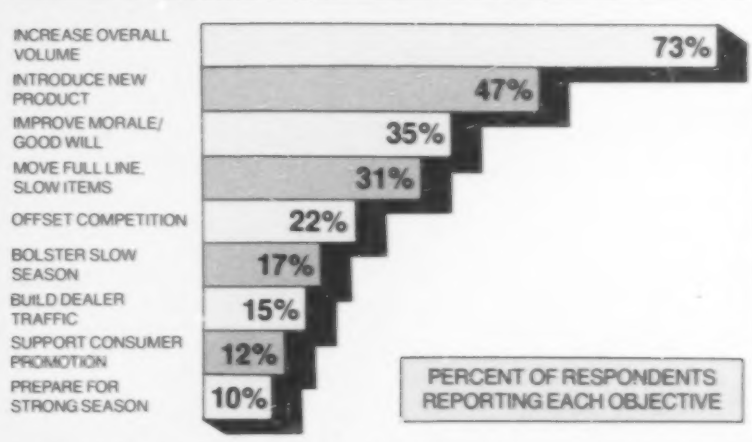
Other objectives include offsetting competition, 22 percent; bolstering a slow season, 17 percent; building dealer traffic, 15 percent; supporting a consumer promotion, 12 percent, and preparing for a strong season, 10 percent.

Defining objectives clearly in advance enables the executive to evaluate results after the promotion ends. Once objectives are determined, they have to be translated into performance goals for the sales force. The individual quota is the most common device, pitting each salesperson against his own past record and/or a realistic share of the total sales-forecast budget.

Users in this survey say that, in 50 percent of cases, they set quotas on the basis of the sales forecast. But almost as many—46 percent—tie quotas to year-earlier performance. And 22 percent use the immediate previous sales period (month, quarter or season) as the criterion of quota performance. The answers exceed 100 percent by quite a bit, indicating that some executives use more than one method.

Salespeople sometimes earn award credits when they achieve sales somewhat below quota. Among those companies granting awards for below-quota performance, awards begin at 84 percent of quota. On average, 99 per-

SALES INCENTIVE OBJECTIVES



cent of quota earns the full award. However, there is a range of variations, and the median responses are 100 percent for the minimum and maximum awards.

The degree of quota performance is, of course, a key to evaluation of the program after its completion—in addition to the basic arithmetic of increased dollar volume. But there are many ways to frame an evaluation, and survey respondents gave IM their choices among five options. Top choice is the simplest—total units or dollars sold, which is the favorite touchstone of 60 percent. A fairly strong second, at 47 percent, is the percentage of the sales force achieving goal or quota. Other criteria are: increased market share, 21 percent; profit on incremental sales, 18 percent, and branch or district performance, 12 percent. The total of well over 100 percent shows that many users apply more than one type of measurement to evaluate their results.

Along with campaign objectives and writing the performance rules, a major related decision is the duration of an incentive promotion. This year's survey respondents, on the average, are conducting slightly longer merchandise promotions and just slightly shorter travel campaigns than their counterparts in past years.

Companies measure success by total units or dollars and by the percentage of people reaching quota.

The average length of the selling and qualification period in merchandise programs this year is 15 weeks, compared with 13 weeks in last year's survey. On the other hand, when the award is travel, average duration is 29 weeks, as against 30 weeks among the 1984 respondents.

Those who use sprint events to spice up a long-running campaign now run them for an average of five weeks, compared with four weeks a year ago.

Another time shift appears in planning promotions. Those executives who use mostly merchandise awards take 15 weeks to get ready, two weeks longer than reported a year ago. Note that the advance planning time equals the actual promotion term. Travel users spend a little less time planning than on the promotion—an average of 26 weeks, down from 32 weeks in the earlier study.

The planning process usually focuses largely on promotional moves to excite the sales force and keep them involved through the campaign. Promotion is built into the incentive budget, and users reporting in this survey allot an average of 15 percent for it. That is two points more than the drumbeating allowances of 1984 respondents. But in both years, the median was substantially lower—only 7 percent spent for promotion by the typical mid-range user.

Deciding on incentive awards is at once a very vital and rather trivial problem. Vital because there must be awards with strong appeal; trivial, in a sense, because a good incentive plan can be made to work with any of dozens of award choices.

The awards and sources are, nevertheless, essential elements of a successful program. Here is how this year's survey respondents deal with the questions:

Types of Award

43% - Single premium or group of related items
38% - Merchandise selection from incentive firm
34% - Individual travel awards
26% - Group travel award
17% - Own merchandise catalogue or selection

Merchandise Suppliers

34% - Direct from manufacturer
26% - Wholesaler or premium jobber
22% - Incentive agency
18% - Manufacturer's rep

Travel Suppliers

44% - Make own arrangements
23% - Travel wholesaler
20% - Incentive agency
13% - Travel carrier or hotel

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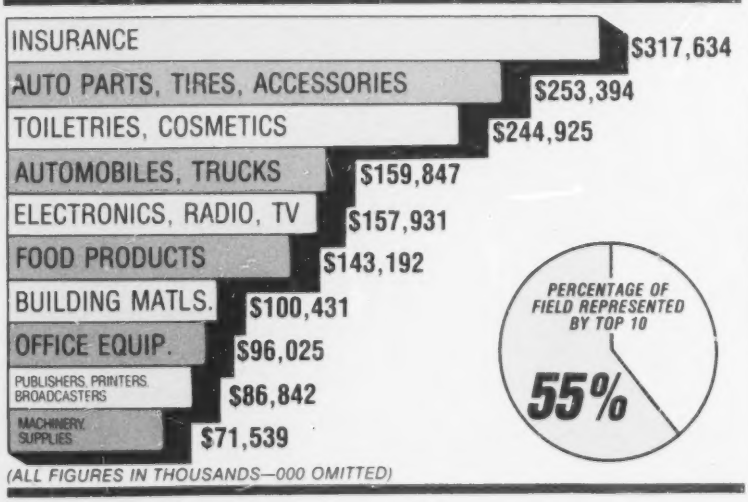
TOP SALES INCENTIVE USERS (1984)



(ALL FIGURES IN THOUSANDS—000 OMITTED)

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Perhaps a more significant question than either the type of award or its source is the unit cost, which must be a direct function of the budget. In this year's study, users reported an average per unit for merchandise at $315, much higher than the $232 recorded a year ago. However, it reflects a larger-than-usual number of big tickets, and the median unit cost both years stands at just $100.

In travel, however, the median expense as well as the average has increased in the past year. Users now report an average cost per winner (including spouses, in most cases) of $1,826, with the median at $1,500. Last year the respective numbers were $1,664 and $1,200. On a per-person basis, the unit cost actually declined to $1,163, from $1,175, but the median has increased to $1,000, from $900 in 1984.

Planning and budgeting with care—and knowledge—give most marketers a very high probability of success in their incentive programs. But there are always factors that can spoil the outcome of even the best plan. In this survey, we asked **IM** readers: "If you have had a sales incentive program you considered a failure, please comment on what you believe were the reasons it failed."

"The only programs that fail are those that are too conservative," suggested R. B. Grove, vice president of R G Industries, a New Jersey office-equipment firm. "The bigger the award, the more successful the program—*large* incentives, Big Bucks, is the answer!" Grove conducts 13-week promotions for company salespeople, reps and wholesaler personnel, with $2,000-value merchandise awards and travel incentives costing about $3,000.

Inadequacies of planning or promotion are often cited as campaign weaknesses. "Poor planning" was the simple summation of Charles James, sales supervisor of Appleton Papers Inc., Elmsford, N.Y. And D. P. Sheardown, sales manager, marketing, at Vespa of America Corporation, South San Francisco, thinks money is the root of evil results. The motorbike maker conducts incentive programs aimed at retailer salespeople and reps, with a rather low percentage participation, but "lack of promotion budget to properly plan, implement and promote" can weaken results, Sheardown said.

Economic and market conditions can often be the main culprit when things don't go right, as Edward E. Lowery, division manager at Amsco Supply, a heating and air conditioning distributor in Ponca City, Okla., noted: "Our company's last travel promotion departed in January of 1984, with participation off approximately 50 percent. This market has been very depressed for a couple of years now. This is why the participation in our last promotion was off so. We have had a few product or merchandise promotions through the manufacturers. We do feel like the market is growing stronger again and are currently considering a travel promotion."

Why sales incentive plans fail was the subject of a question in an **IM** survey in 1982, and, at that time, the biggest success threat, reported by 39 percent, was excessively high quotas. About 36 percent blamed insufficient promotion for failures, and 34 percent named a weak national economy as the problem. Insufficient planning was the cause in the minds of 33 percent, and 30 percent cited "wrong timing."

Failure was on the minds of many in 1982, with incentives fighting heavy economic odds against them. But few marketers have been inclined to think failure either last year or this year. And, despite the considerable economic slowdown, their optimism is pretty clear. ■

ARIZONA

CONTINUED FROM PAGE 88

to come up with good, different ideas such as desert jeep rides or hot-air balloons."

The Pointe's Brooks added that the plethora of resorts in Arizona helps keep the destination fresh. "We really try to outdo each other with theme parties," he said. "Because everyone is trying to do something new and different, it really is an exciting way to keep incentive groups coming back."

The rest of Arizona is more geared to the individual tourist than an incentive group. Members of an incentive group who might want to stay on a few extra days might find northern Arizona—especially the Grand Canyon area—a perfect place to backpack and camp.

"We call ourselves the City of Seven Wonders," said Martha Keene, a spokesperson for the Flagstaff Chamber of Commerce. "We're a small city, but we get a lot of tourists, mainly because we are on the main road to the Grand Canyon."

Keene noted that Flagstaff has only a handful of hotels, with the 240-room Little America Motel offering the most rooms. Most visitors usually just spend the night on the way north or, in the winter months, go skiing at one of the nearby resorts. (Mt. Lemmon, 45 minutes northeast of Tucson, also offers skiing.)

"Really, the Grand Canyon and Flagstaff are not usually part of incentive trips," said Steve Tripp, a spokesperson for the Arizona Office of Tourism. "They could be offered as side trips. Especially the Grand Canyon—it is really breathtaking and is our number-one tourist attraction." ■

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